

# **Legacy Wealth Management, LLC**

**CRD# 174767**

13965 W. Chinden Blvd.  
Boise, ID 83713

**Telephone: 208-955-0500**  
**Facsimile: 208-955-4305**

**[www.legacywealthmg.com](http://www.legacywealthmg.com)**

**January 01, 2019**

## **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Legacy Wealth Management, LLC. If you have any questions about the contents of this brochure, contact us at 208-955-0500. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Legacy Wealth Management, LLC (also abbreviated LWM throughout this ADV) is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can access the additional information by entering the CRD# 174767 in the search field.

Legacy Wealth Management, LLC is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment dated March 28, 2017, we have made the following material changes to our Form ADV:

- ☐ We amended Item 4 to clarify that Desert Rose Capital Management, Inc. ("Desert Rose"), a sub-adviser to our firm, will only offer its services where it is properly registered; as such, we will not use Desert Rose's sub-advisory services for our Colorado clients. Additionally, we updated Item 5 to disclose the sub-advisory fee received by Desert Rose. Lastly, our advisory firm is no longer affiliated with Desert Rose; therefore, all affiliation references have been removed from our Brochure.
- ☐ We have updated our Brochure to clarify that we may recommend non-traded Real Estate Investment Trusts ("REITs"). For more information on this topic, including the potential risks associated with non-traded REITs, refer to Items 4 and 8.
- ☐ We have updated the *Compensation for the Sale of Other Investment Products* section in Item 5 to clarify the client's right to choose whether to purchase the recommended insurance product. For more information on this topic, refer to Item 5.
- ☐ We have updated our Brochure to disclose that the maximum annual asset management fee that will be assessed on an Illiquid Direct Participation Program ("DPP") Investment is 1.50%. Additionally, we have updated the Brochure to disclose potential conflicts of interest associated with providing investment advisory services on DPP Investments. For more information on this topic, refer to Item 5.
- ☐ We have updated the disclosures in Item 8 to remove short-term purchases, revise short sales, margin transactions, option writing, non-traded REITs, options and warrants.
- ☐ We have updated our disclosures as it pertains to research and soft dollar benefits. Refer to Item 12 for more information.
- ☐ We routinely require that you direct our firm to execute transactions through TD Ameritrade, Inc., Community National Bank, and AssetMark, Inc. For more information on this topic, refer to Item 12.
- ☐ We have replaced David N. Johan as the managing member with Andy A. Rad as of January 01, 2019.

## Item 3 Table of Contents

Item 2 Summary of Material Changes .....	2
Item 3 Table of Contents .....	3
Item 4 Advisory Business .....	4
Item 5 Fees and Compensation .....	5
Item 6 Performance-Based Fees and Side-By-Side Management .....	7
Item 7 Types of Clients .....	8
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Item 9 Disciplinary Information .....	13
Item 10 Other Financial Industry Activities and Affiliations .....	13
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..	13
Item 12 Brokerage Practices .....	15
Item 13 Review of Accounts .....	18
Item 14 Client Referrals and Other Compensation .....	18
Item 15 Custody .....	18
Item 16 Investment Discretion .....	19
Item 17 Voting Client Securities .....	19
Item 18 Financial Information .....	19
Item 19 Requirements for State-Registered Advisers .....	20
Item 20 Additional Information .....	20

## Item 4 Advisory Business

### Description of Firm

Legacy Wealth Management, LLC is a registered investment adviser primarily based in Boise, Idaho. We are organized as a Limited Liability Company ("LLC") under the laws of the State of Idaho. We have been providing investment advisory services since March 2015. Andy A. Rad is our Managing Member and Tami L. Wheeler is our Chief Compliance Officer.

The following paragraphs describe our services and our fees are described in Item 5. Refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this Brochure, the words "we", "our" and "us" refer to Legacy Wealth Management, LLC and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm.

### Portfolio Management Services

We offer discretionary and non-discretionary portfolio management services. Our investment advice is tailored to meet our clients' needs and investment objectives. If you retain our firm for portfolio management services, we will meet with you to determine your investment objectives, risk tolerance, and other relevant information at the beginning of our advisory relationship. We will use the information we gather to develop a strategy that enables our firm to give you continuous and focused investment advice and/or to make investments on your behalf. As part of our portfolio management services, we may customize an investment portfolio for you according to your risk tolerance and investing objectives or we may invest your assets according to one or more model portfolios developed by our firm.

If you participate in our discretionary portfolio management services, we require you to grant our firm discretionary authority to manage your account. Discretionary authorization will allow us to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm and the appropriate trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased or sold for your account) by providing our firm with your restrictions and guidelines in writing. Such restrictions must be reasonable, as determined in our sole discretion.

We may also offer non-discretionary portfolio management services. If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account. You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

As part of our portfolio management services, we may use one or more sub-advisers and/or money managers ("MM") to manage a portion of your account on a discretionary basis. The sub-adviser(s) may use one or more of their model portfolios to manage your account. We will regularly monitor the performance of your accounts managed by sub-adviser(s), and may hire and fire any sub-adviser without your prior approval. We may pay a portion of our advisory fee to the sub-adviser(s) we use; however, you will not pay our firm a higher advisory fee as a result of any sub-advisory relationships. Desert Rose Capital Management, Inc. serves as a sub-adviser to our firm and will only offer its services where it is properly registered; as such, we will not use Desert Rose Capital Management, Inc.'s sub-advisory services for our Colorado clients.

## **Wrap Fee Programs**

We do not participate in any wrap fee program.

## **Types of Investments**

We primarily offer advice on equity securities, corporate debt securities (other than commercial paper), municipal securities, United States government securities, mutual fund shares, exchange-traded funds (ETFs), non-traded REITs, Private Equity, Direct Participation Programs, and options contracts on securities.

Additionally, we may advise you on various types of investments based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship. You may request that we refrain from investing in particular securities or certain types of securities; however, you must provide these restrictions to our firm in writing.

## **Assets under Management (“AUM”)**

As of January 1<sup>st</sup>, 2019, the firm manages approximately \$107,008,000 in assets for approximately 1,330 accounts. Approximately \$103,338,000 is managed on a discretionary basis, and approximately \$3,670,000 is managed on a non-discretionary basis.

## **Item 5 Fees and Compensation**

### **Portfolio Management Services**

Our fee for portfolio management services is based on a percentage of your assets that we manage. Our advisory fees are negotiable and range from 0.50% to 2.0% of total assets. The basis for negotiating the portfolio management fees, the sub-adviser fees, and the advisory consulting fees depend on account sizes, family accounts, investment goals, risk tolerance and time horizon, clients' involvement and depth of the financial planning. Our annual portfolio management fee is billed and payable quarterly in advance based on the value of your account on the last day of the previous quarter. If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee when the following requirements are met:

- ☐ You provide our firm with written authorization permitting the fees to be paid directly from your account held by the qualified custodian.
- ☐ The qualified custodian agrees to send you a statement, at least quarterly, indicating all amounts dispersed from your account including the amount of the advisory fee paid directly to our firm.

Client may pay LWM's Adviser Representative ("IAR") directly for its services (in which event IAR's fee is due and payable upon receipt of IAR's billing invoice).

We encourage you to reconcile our invoices with the statement(s) you receive from the qualified custodian. If you find any inconsistent information between our invoice and the statement(s) you receive from the qualified custodian call our main office number located on the cover page of this Brochure.

You may terminate the portfolio management agreement upon 15 days written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees. Any refunds will be sent by check to your address or then current custodian.

An investment adviser shall deliver the materials, via internet Web link, required by this section to an advisory client or prospective advisory client (i) not less than forty-eight hours prior to entering into any investment advisory contract with such client or prospective advisory client, or (ii) at the time of entering into any such contract, if the advisory client has the right to terminate the contract without penalty within five business days after entering into the contract.

We will not require prepayment of a fee more than six months in advance and in excess of \$500.

#### **Fee Schedule**

Our regular fee schedule is as follows:

\$0 to \$1,000,000: 2.00% per annum

\$1,000,001 to \$5,000,000: 1.50% per annum

\$5,000,001 to \$10,000,000: 1.00% per annum

\$10,000,001+: 0.50% per annum

Our fees may be negotiable.

#### **Sub-Adviser Fee:**

Desert Rose Capital Management, Inc. receives a sub-advisory fee of 40 basis points. We will pay Desert Rose Capital Management, Inc.'s sub-advisory fee out of our advisory fee. However, you will not pay our firm a higher advisory fee as a result of any sub-advisory relationships.

#### **Illiquid Direct Participation Program ("DPP") Investments**

The maximum annual AUM fee assessed on DPP Investments is 1.50%. DPP investment offering structures may be private equity (for example, Regulation D, Regulation A, etc.), public non-traded offerings (for example, S-1 offerings, Intrastate offerings, Business Development Companies ("BDCs"), non-traded mutual funds, etc.), non-traded REITs, non-traded Closed End Funds, or non-traded oil and gas programs. This assessed fee will not exceed the client's total fees for all services combined, including third-party separately managed account programs.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, refer to the *Brokerage Practices* section of this Brochure.

### **Compensation for the Sale of Other Investment Products**

Persons providing investment advice on behalf of our firm may be licensed as independent insurance agents. These persons may earn commission-based compensation for selling insurance products, including insurance products they may sell to you. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice presents a potential conflict of interest because persons providing investment advice on behalf of our firm who may be insurance agents have a financial incentive to recommend insurance products to you. You always have the right to decide whether to purchase the recommended insurance products and you always have the right to choose any licensed insurance agent to purchase insurance products. Insurance products will not be offered to clients unless the IAR is appropriately licensed to sell insurance products in the client's State.

### **Potential Conflicts of Interests**

Generally speaking, because the IAR is receiving a management fee, which in most cases is the same regardless of the underlying investment, there is limited potential for a conflict of interest to arise as it relates to the recommendation of products or services for which the IAR or an associated person may receive compensation. In some instances, the IAR may choose to charge the full 1.50% AUM fee on DPP Investments which may be higher than other advisory investments fees charged to the client. However, in compliance with various regulations, before entering or renewing a financial services management agreement and or the purchase of DPP Investments with a client, the IAR will disclose in writing to the client any material conflicts of interest regarding the IAR, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice. Also, the IAR through its representatives might recommend and charge an ongoing asset under management fee on Alternative Investments with no sunset provision which could potentially result in higher long-term fees compared to receiving an upfront commission.

The fees charged by the IAR may be higher than fees charged by other advisors for similar services. The IAR seeks to assure that the client is charged a competitive rate according to the size of the account being managed and the spectrum of the services being rendered.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

We do not accept performance-based fees or participate in side-by-side management.

## Item 7 Types of Clients

We offer investment advisory services to individuals (including high net worth individuals), charitable organizations, and corporations or other business entities.

In general, we do not require a minimum dollar amount to open and maintain an advisory account; however, we have the right to terminate your account if it falls below a minimum size which, in our sole opinion, is too small to manage effectively. It is negotiable but our minimum account size is \$5,000.

## Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

We will use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

**Charting Analysis** - involves the gathering and processing of price and volume pattern information for a particular security, sector, broad index or commodity. This price and volume pattern information is analyzed. The resulting pattern and correlation data is used to detect departures from expected performance and diversification and predict future price movements and trends.

**Risk:** Our charting analysis may not accurately detect anomalies or correctly predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Technical Analysis** - involves studying past price patterns, trends and interrelationships in the financial markets to assess risk-adjusted performance and predict the direction of both the overall market and specific securities.

**Risk:** The risk of market timing based on technical analysis is that our analysis may not accurately detect anomalies or predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Fundamental Analysis** - involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company and its industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.

**Risk:** The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

**Cyclical Analysis** - a type of technical analysis that involves evaluating recurring price patterns and trends. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions.



**Risk:** The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.

**Modern Portfolio Theory** - a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully diversifying the proportions of various assets.

**Risk:** Market risk is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification.

**Long-Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

**Risk:** Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or perhaps just your particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost - "locking-up" assets that may be better utilized in the short-term in other investments.

**Short Sales** - securities transaction in which an investor sells securities that were borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. All short sales that we participate in is either covered or hedged.

**Risk:** A short seller will profit if the stock goes down in price, but if the price of the shares increase, the potential losses are unlimited. However, since all short sales will either be covered or hedged, losses may be limited.

**Margin Transactions** - a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. While this not a core strategy, it may be required when implementing an option strategy.

**Risk:** If the value of the security drops sufficiently, the investor will be required to either deposit more cash into the account or sell a portion of the security in order to maintain the margin requirements of the account. This is known as a "margin call." An investor's overall risk includes the amount of money invested plus the amount that was loaned to them.

**Option Writing** - a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The buyer pays the seller a premium (the market price of the option at a particular time) in exchange for writing the option. We will not participate in an option strategy unless it is covered or hedged.

**Risk:** Options are complex investments and can be very risky, especially if the investor does not own the underlying stock. In certain situations, an investor's risk may be unlimited.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined

objectives, risk tolerance, time horizon, financial information, liquidity needs and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you consult with a tax professional regarding the investing of your assets.

Moreover, custodians and broker-dealers must report the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the FIFO (First-In First-Out) accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

We primarily recommend equity securities, corporate debt securities (other than commercial paper), municipal securities, United States government securities, mutual fund shares, ETFs, non-traded REITS and options contracts on securities. However, we may advise on other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with the investment.

**Stocks:** There are numerous ways of measuring the risk of equity securities (also known simply as "equities" or "stock"). In very broad terms, the value of a stock depends on the financial health of the company issuing it. However, stock prices can be affected by many other factors including, but not limited to the class of stock (for example, preferred or common); the health of the market sector of the issuing company; and, the overall health of the economy. In general, larger, better established companies ("large cap") tend to be safer than smaller start-up companies ("small cap") are but the mere size of an issuer is not, by itself, an indicator of the safety of the investment.

**Bonds:** Corporate debt securities (or "bonds") are typically safer investments than equity securities, but their risk can also vary widely based on: the financial health of the issuer; the risk that the issuer might default; when the bond is set to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a

bond of equal character paying the same rate of return.

**Municipal Securities:** Municipal securities, while generally thought of as safe, can have significant risks associated with them including, but not limited to: the credit worthiness of the governmental entity that issues the bond; the stability of the revenue stream that is used to pay the interest to the bondholders; when the bond is due to mature; and, whether or not the bond can be "called" prior to maturity. When a bond is called, it may not be possible to replace it with a bond of equal character paying the same amount of interest or yield to maturity.

**Mutual Funds and ETFs:** Mutual funds and ETFs are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely whereas "closed end" funds have a fixed number of shares to sell which can limit their availability to new investors.

**REITs:** A REIT is a corporate entity which invests in real estate and/or engages in real estate financing. A REIT reduces or eliminates corporate income taxes. REITs can be publicly or privately held. Public REITs may be listed on public stock exchanges. REITs are required to declare 90% of their taxable income as dividends, but they actually pay dividends out of funds from operations, so cash flow has to be strong or the REIT must either dip into reserves, borrow to pay dividends, or distribute them in stock (which causes dilution). After 2012, the IRS stopped permitting stock dividends. Most REITs must refinance or erase large balloon debts this year and next. The credit markets are no longer frozen, but banks are demanding, and getting, harsher terms to re-extend REIT debt. Some REITs may be forced to make secondary stock offerings to repay debt, which will lead to additional dilution of the stockholders. Fluctuations in the real estate market can affect the REIT's value and dividends.

Non-traded REITs are not publicly traded, which limits the information available on the REIT. Additionally, non-traded REITs lack liquidity and in many instances, there is a minimum period of time that you must hold the REIT before it can be sold. There may also be additional fees associated with selling the REIT. Also, in the case of a premature liquidation or redemption, your investment might realize a loss to the net asset value ("NAV"). Meaning, that the realized NAV of the fund will not be able to be obtained because of the liquidation or redemption. There might be also a premature liquidity penalty fee that the sponsor may charge. Non-traded REITs should always be seen as long term commitments.

**Options and Warrants:** Options are complex securities that *involve risks and are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss. It is generally recommended that you only invest in options with risk capital.* An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a

specific price on or before a certain date (the "expiration date"). The main difference between warrants and call options is that warrants are issued directly by the issuing company, whereas options are traded on an exchange and are not issued by the company. Also, the lifetime of a warrant is often measured in years, while the lifetime of a typical option is measured in months. The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. Calls are similar to having a long position on a stock. Buyers of calls hope that the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. Puts are very similar to having a short position on a stock. Buyers of puts hope that the price of the stock will fall before the option expires.

The option trading risks pertaining to options buyers are:

- ☐ Risk of losing your entire options investment in a relatively short period of time.
- ☐ The risk of losing your entire options investment increases if, as expiration nears, the stock is below the strike price of the call (for a call option) or if the stock is higher than the strike price of the put (for a put option).
- ☐ Specific exercise provisions of a specific option contract may create risks.
- ☐ Regulatory agencies may impose exercise restrictions, which stops you from realizing value.

The option trading risks pertaining to options sellers are:

- ☐ Options sold may be exercised at any time before expiration.
- ☐ Covered Call sellers forgo the right to profit when the underlying stock rises above the strike price of the call options sold and continues to risk a loss due to a decline in the underlying stock.
- ☐ Writers of Naked Calls risk unlimited losses if the underlying stock rises.
- ☐ Writers of Naked Puts risk losing the amount of the contract value, minus what the writer was paid for writing the put.
- ☐ Writers of call options can lose more money than a short seller of that stock on the same rise on that underlying stock. This is an example of how the leverage in options can work against the option trader.
- ☐ Writers of Naked Calls are obligated to deliver shares of the underlying stock if those call options are exercised.
- ☐ Call options can be exercised outside of market hours such that effective remedy actions cannot be performed by the writer of those options.
- ☐ Writers of stock options are obligated under the options that they sold even if a trading market is not available or that they are unable to perform a closing transaction.
- ☐ The value of the underlying stock may surge or ditch unexpectedly, leading to automatic exercises.

Other option trading risks are:

- ☐ The complexity of some option strategies is a significant risk on its own.
- ☐ Risk of erroneous reporting of exercise value.
- ☐ Internationally traded options have special risks due to timing across borders.

Risks that are not specific to options trading include: market risk, sector risk and individual stock

risk. Option trading risks are closely related to stock risks as stock options are a derivative of stocks.

## **Item 9 Disciplinary Information**

We are required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of our advisory business or the integrity of our management. We do not have any required disclosures under this item.

## **Item 10 Other Financial Industry Activities and Affiliations**

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. Broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. Investment Company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).
3. Other investment adviser or financial planner.
4. Futures commission merchant, commodity pool operator, or commodity trading advisor.
5. Banking or thrift institution.
6. Accountant or accounting firm.
7. Lawyer or law firm.
8. Insurance company or agency.
9. Pension consultant.
10. Real Estate broker or dealer.
11. Sponsor or syndicator of limited partnerships.

### **Other Registrations**

The firm and its management persons are not registered, nor have an application pending to register as a broker-dealer or a representative of a broker-dealer.

The firm and its management persons are not registered, nor have an application pending to register as a futures commission merchant, commodity pool operator, commodity trading adviser, or an associated person of the foregoing entities.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this Brochure.

## **Participation or Interest in Client Transactions**

Neither our firm nor any persons associated with our firm has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this Brochure.

## **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. Additionally, our firm or persons associated with our firm may buy or sell securities for you at the same time we or persons associated with our firm buy or sell such securities for our own account. We may also combine our orders to purchase securities with your orders to purchase securities ("block trading"). Please refer to the *Brokerage Practices* section in this brochure for information on our block trading practices.

A potential conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities. We also mitigate this conflict by investing in widely held securities making any order of purchase or sale insignificant in terms of impacting the price of the security.

## **Item 12 Brokerage Practices**

We recommend the brokerage services of TD Ameritrade, Inc. and the custodial services of Community National Bank (the "Custodians"). TD Ameritrade, Inc. are securities broker-dealers and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). We believe that the recommended Custodians provide quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by the Custodians, including the value of the Custodians' reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of the services the Custodians provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

## **Research and Other Soft Dollar Benefits**

Although the Custodian does not consider the research services described below to be "soft dollars", certain jurisdictions do classify them as such; therefore, we are disclosing the receipt of certain research services as soft dollars. Soft dollar arrangements present a potential conflict of interest since we have an incentive to recommend the Custodian in order to have access to those research materials. Benefits received are generally for the benefit of all of our clients. However, some research may benefit some clients and not others. Nevertheless, we believe that access to this material is in the best interests of our clients. We periodically review our relationships with the Custodians and the services each offers to ensure each remains in the best interest of our clients to maintain this custodial arrangement.

## **TD Ameritrade Institutional**

IARs participate in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member

FINRA/SIPC ("TD Ameritrade"), and an unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. IARs receive some benefits from TD Ameritrade through its participation in the Program.

As disclosed above, IARs participate in TD Ameritrade's institutional customer program and IARs may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between IAR's participation in the program and the investment advice it gives to its clients, although IAR receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving IAR participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to IAR by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by IAR's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit IAR but may not benefit its client accounts. These products or services may assist IAR in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help IAR manage and further develop its business enterprise. The benefits received by IAR or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, IAR endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by IAR or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the IAR's choice of TD Ameritrade for custody and brokerage services.

As a fiduciary, we are required to always act in your best interest. We believe that recommending TD Ameritrade is appropriate and the cost benefits are in your best interest.

### **Economic Benefits**

As a registered investment adviser, we have access to the institutional platform of your account custodian. As such, we will also have access to research products and services from your account custodian and/or other brokerage firm. These products may include financial publications, information about particular companies and industries, research software, and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Such research products and services are provided to all investment advisers that utilize the institutional services platforms of these firms. However, you should be aware that the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**



We routinely require that you direct our firm to execute transactions through TD Ameritrade, Inc., Community National Bank, and AssetMark, Inc. As such, we may be unable to achieve the most favorable execution of your transactions and you may pay higher brokerage commissions than you might otherwise pay through another broker-dealer that offers the same types of services. Not all advisers require their clients to direct brokerage.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

We may combine multiple orders for shares of the same securities purchased for discretionary accounts; however, we do not combine orders for non-discretionary accounts. Accordingly, non-discretionary accounts may pay different costs than discretionary accounts pay. If you enter into non-discretionary arrangements with our firm, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements with our firm.

### **Item 13 Review of Accounts**

Andy A. Rad, Managing Member, and David N. Johan, Investment Adviser Representative of Legacy Wealth Management will monitor your accounts on an ongoing basis and either they or another Legacy Wealth Management IAR will conduct an account review with you at least annually, to ensure the advisory services provided to you are consistent with your investment needs, objectives, and to take into account any changes in your profile. Additional reviews may be conducted based on various circumstances, including, but not limited to, contributions and withdrawals, year-end tax planning, market moving events, security specific events, and/or changes in your risk/return objectives.

We will provide you with written reports in conjunction with account reviews. Reports we provide to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance, etc. Additionally, you should receive trade confirmations and monthly or quarterly statements from your account custodian(s).

### **Item 14 Client Referrals and Other Compensation**

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with your account custodian.

### **Item 15 Custody**

With your written authorization, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You should receive account statements

from the qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

If you have a question regarding your account statement, or if you did not receive a statement from your custodian, contact us immediately at the telephone number on the cover page of this Brochure.

## **Item 16 Investment Discretion**

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement and the appropriate trading authorization forms (e.g. limited power of attorney).

Before assuming authority to select, hire and fire sub-advisers we proceed with a due diligence and a firm approval. You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). You may also place limitations on the selection of sub-advisers. For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Refer to the *Advisory Business* section in this Brochure for more information on our discretionary management services.

If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

## **Item 17 Voting Client Securities**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

## **Item 18 Financial Information**

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$500 in fees six or more months in advance nor have we filed a bankruptcy petition at any time in the past ten years. Therefore, we are not required to include a financial statement with this brochure.

## **Item 19 Requirements for State-Registered Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Additional Information**

#### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this Brochure if you have any questions regarding this policy.

#### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, you will keep the profit.

However, for accounts custodied at TD Ameritrade Inc., as of April 1, 2014, if a profit results from correcting the trade, you will not retain the profit as all net gains (positive error accounts balances resulting from trade corrections) will be moved to a TD Ameritrade error account and subsequently donated to charity.

#### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.